

Kentucky Power Company
KPSC Case No. 2019-00443
Commission Staff's Post-Hearing Data Requests
Dated December 11, 2020

DATA REQUEST

Staff_PHDR_01 State whether Kentucky Power agrees it has an obligation under KRS Chapter 278 to maintain sufficient generating capacity² to serve native load.

² For purposes of this question, "sufficient generating capacity" means enough capacity to meet the utility's expected customer peak demand plus a reasonable reserve margin.

RESPONSE

The Company does not agree. Kentucky Power's obligation under Chapter 278 of the Kentucky Revised Statutes is to provide "adequate, efficient, and reasonable service." KRS 278.030(2). Kentucky Power's rates also must be "fair, just, and reasonable." KRS 278.030(1). Because capacity, whether owned or under contract, carries with it a cost that is borne by the Company's customers, Kentucky Power currently satisfies both of its statutory obligations through its participation as load serving entity ("LSE") in PJM Interconnection LLC through the Fixed Resource Requirement ("FRR") alternative. As an FRR LSE, Kentucky Power must commit its load obligation including any forecasted load growth plus the reserve margin. The FRR commitment is for one year at a time, 3 years in advance.

Witness: Brian K. West

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DATA REQUEST

Staff_PHDR_02 If Kentucky Power has an obligation under KRS Chapter 278 to maintain sufficient generating capacity to serve native load, explain how Kentucky Power's IRP sufficiently plans to meet the utility's customer demand, especially winter peak demand.

RESPONSE

Kentucky Power does not agree that it has an obligation under KRS Chapter 278 to maintain sufficient generating capacity to serve native load. Please refer to the Company's response to Staff_PHDR_01.

To the extent that such an obligation is nevertheless found to exist, Kentucky Power as a member of PJM, must plan to meet the Company's generation capacity obligation (including reserve margin) using the PJM summer peak demand construct. To the extent that the Company's winter peak demand is greater than its summer peak demand obligation for which the Company is planning to meet in its IRP analysis, the additional winter load requirements are being served through market purchases of energy. Because the Company is only obligated in PJM to provide enough unit specific capacity to cover the lower summer capacity obligation, customers realize a savings through the lesser capacity obligation.

Witness: G. Scott Fisher

Witness: Brian K. West

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DATA REQUEST

Staff_PHDR_03 State whether Kentucky Power agrees that to the extent its own generating capacity serves as a hedge for customers against market energy prices, when the utility does not have sufficient capacity available to serve native load it is unable to hedge the entirety of customer demand for energy.

RESPONSE

Kentucky Power cannot agree to the statement. The Company agrees that its generation resources act as a physical hedge with respect to market energy prices. The Commission made just this finding in Case No. 2004-00420 in approving the 18-year extension of the Rockport Unit Power Agreement and concomitant supplemental payment:

Kentucky Power is now proposing a long-term extension of the Rockport unit power contract at a price that is not subject to market volatility. Although the price to be paid by retail customers does not reflect market forces since it is priced above cost of service, the price now being fixed will insulate retail ratepayers from the risk of future market price volatility.¹¹

To the extent the Company's load at any time is greater than its generating capability, then a corresponding portion of the Company's energy needs would lack a physical generation hedge.

But other hedges are available in the absence of a physical hedge. For example, financial hedges can be employed if a material need were to arise. For example, if the Company expected that its load were to be elevated above its generating capability for an extended period of time, and there was an expectation of high market prices for an extended period of time, the Company could seek to purchase a block of energy from a counterparty or purchase some other product such as a heat rate call option to hedge the energy short position in full or in part.

It should be noted that hedges – physical, contractual, and financial – come with a cost to customers, and not all hedges end up being less expensive than actual avoided market purchases of energy.

Please also refer to the Company's response to Staff_PHDR_02.

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[\[1\]](#) Order, In the Matter of: Application Of Kentucky Power Company For Approval Of Stipulation And Settlement Agreement Resolving State Regulatory Matters, Case No, 2004-00420 at 6 (Ky. P.S.C. December 13, 2004).

Witness: G. Scott Fisher

Witness: Brian K. West

VERIFICATION

The undersigned, Brian K. West, being duly sworn, deposes and says he is Director Regulatory Services for Kentucky Power Company that he has personal knowledge of the matters set forth in the forgoing testimony and the information contained therein is true and correct to the best of his information, knowledge and belief after reasonable inquiry.



Brian K. West

State of Indiana)
) ss Case No. 2019-00443
County of Allen)

Subscribed and sworn to before me, a Notary Public, in and for said County and State, Brian K. West this 21st day of December, 2020.

Regiana M.)
Sistevaris) Digitally signed by Regiana M.
) Sistevaris
) Date: 2020.12.21 16:29:23 -05'00'

Regiana M. Sistevaris, Notary Public

My Commission Expires: January 7, 2023

VERIFICATION

The undersigned, G. Scott Fisher, being duly sworn, deposes and says he is a Resource Planning Manager for AEP Service Corporation, that he has personal knowledge of the matters set forth in the forgoing responses and the information contained therein is true and correct to the best of his information, knowledge and belief after reasonable inquiry.

Scott Fisher
G. Scott Fisher

State of Indiana)
)
County of Allen) Case No. 2019-00443

Subscribed and sworn before me, a Notary Public, by G. Scott Fisher this
22nd day of December, 2020.

Regiana M. Sistevaris Digitally signed by Regiana M. Sistevaris
Date: 2020.12.22 10:51:29 -05'00'

Notary Public Regiana M. Sistevaris

My Commission Expires January 7, 2023